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Message Text

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PAGE 01 OTTAWA 04333 271637Z
ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
----------271643Z 084950 /43
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FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC IMMEDIATE 3596

C O N F I D E N T I A L OTTAWA 04333

EXDIS

E.O. 11652: GDS
TAGS: ENRG, CA
SUBJECT: NATURAL GAS PRICE INCREASE

REF: STATE 121548

1. DCM ACCOMPANIED BY EMBOFF CALLED ON EXTAFF MINISTER JAMIESON MAY 26 TO MAKE REPRESENTATIONS AND PRESENT AIDE MEMOIRE AS INSTRUCTED REFTEL. EXTAFF ASSISTANT UNDER-SECRETARY PETER TOWE ALSO PRESENT.

2. DURING CORDIAL 30-MINUTE CONVERSATION, JAMIESON EMPHASIZED GOC DESIRE FOR DETAILED CONSULTATIONS WITH USG BEFORE CABINET MAKES DECISION ON EXPORT GAS PRICE INCREASE. AT CONCLUSION OF MEETING, HE SUGGESTED THAT DETAILED CONSULTATIONS, WHICH HE HOPED WOULD PRODUCE AS MUCH AGREE-MENT ON OUTSTANDING DIFFERENCES AS POSSIBLE WITHIN LIMITS OF RESPECTIVE GOC AND USG POLICY POSITIONS, COULD BE HELD IN OTTAWA AS EARLY AS WEEK BEGINNING MAY 30.

3. IN DISCUSSING GAS EXPORT PRICING POLICY, JAMIESON (STRONGLY SUPPORTED BY TOWE) ASSERTED VALIDITY OF FORMULA BASED ON REPLACEMENT VALUE OF ENERGY IMPORTED INTO EASTERN CANADA, BUT INDICATED WILLINGNESS TO DISCUSS METHOD OF CALCULATION.
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4. JAMIESON RESPONDED POSITIVELY TO REQUEST THAT ANY PRICE INCREASE BE PHASED IN. HOWEVER, TOWE REMINDED JAMIESON THAT ALTHOUGH EXPORT PRICE PREVIOUSLY HAD MORE OR LESS FOLLOWED PHASE-IN OF DOMESTIC GAS PRICE INCREASES, GOC NEED NOT NECESSARILY BE BOUND BY THIS PRECEDENT.

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5. IN RESPONSE TO DCM'S EMPHASIS ON DESIRED CONVERGENCE OF U.S. AND CANADIAN GAS PRICING, AND HENCE IMPORTANCE OF GOC HOLDING INCREASES TO MINIMUM, JAMIESON AND TOWE WERE ESSENTIALLY NON-COMMITTAL. TOWE, IN SOMEWHAT JOCULAR ASIDE, ALLUDED TO POLITICAL NECESSITY FOR CANADIAN CONSUMERS TO BE ABLE TO BUY THEIR GAS AT CHEAPER PRICE THAN THAT BEING CHARGED FOR EXPORT.

6. COMMENT: CANADIANS MADE CLEAR THEIR PREFERENCE FOR EARLIEST POSSIBLE CONSULTATIONS IN OTTAWA. IN THIS RESPECT, JAMIESON IMPLIED WILLINGNESS TO KEEP CONSULTATIONS OPEN THROUGH PERIOD WHEN DOMESTIC GAS PRICE INCREASE WILL BE DETERMINED, RECOGNIZING THAT AS FACTOR IN DETERMINING EXPORT PRICE. (NOTE: EMBASSY UNDERSTANDS THAT TARGET DATE FOR ANNOUNCEMENT OF DOMESTIC PRICE DECISION IS MID-JUNE.) OUR IMPRESSION IS THAT CANADIANS ARE READY TO BE SOMEWHAT FLEXIBLE ON ARITHMETIC BUT NOT ON PRINCIPLE.

7. EMBASSY URGES POSITIVE RESPONSE TO PROPOSAL FOR CONSULTATIONS EARLY IN WEEK OF MAY 30. TOWE IMPLIED ENERGY, MINES AND RESOURCES DEPUTY MINISTER GORDON MACNABB IS PREPARED TO HEAD CANADIAN TEAM.

8. EMBASSY REQUESTS INSTRUCTIONS SOONEST ON RESPONSE TO GOC RE TIMING OF CONSULTATIONS AND COMPOSITION OF U.S. DELEGATION. ENDERS

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